



Your Key to Real Estate Services

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APARTMENTS

While Houston apartment occupancy has fallen substantially over the past year, rental rates have not followed suit. Overall rents ended the fourth quarter of 2006 \$0.014 per square foot higher than one year ago. Furthermore, the gains were across the board, as all classes posted yearly increases. While Class A led the way with an increase of \$0.014 psf since last year, the other classes were not far behind, as Classes B and D posted year-over-year increases of \$0.013 psf, with Class C gaining \$0.010 psf over the year. Even if occupancy continues to decrease – and further decreases are a strong possibility – rents are likely to continue rising. While potential renters should definitely notice more bargains being offered in the form of concessions, market rents should at least hold steady. Furthermore, most new development coming online will be high-end, and per-square-foot rents of \$1.40-\$1.50 and upwards in these projects will help bolster rents for the overall market.

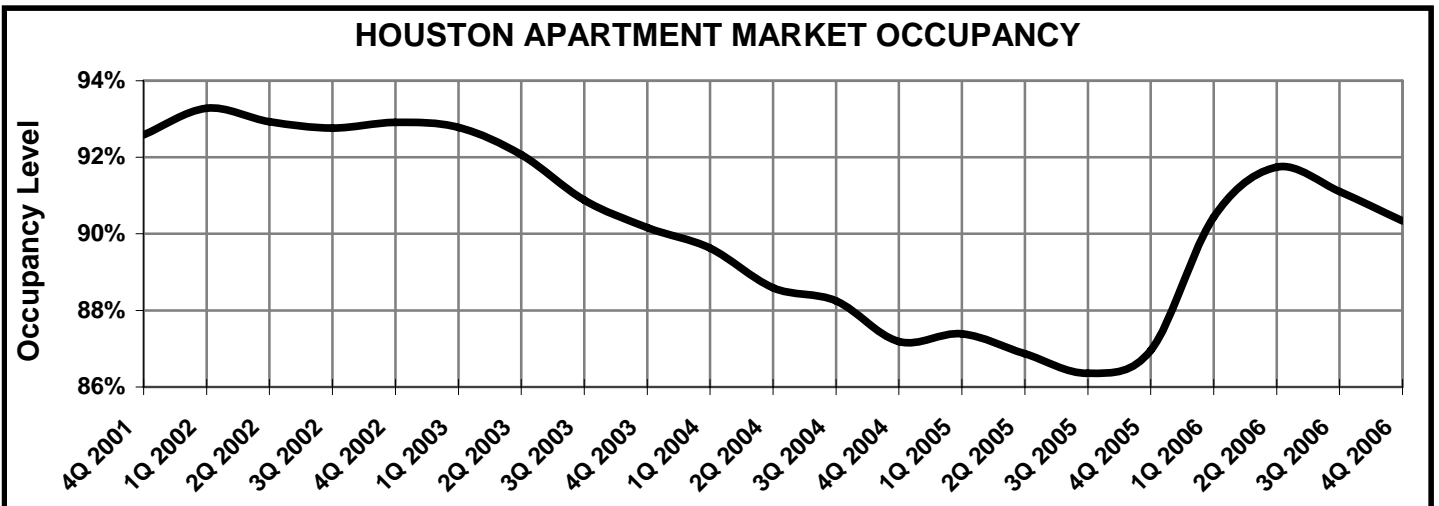
According to www.oconnordata.com, O'Connor & Associates' online apartment data program, **Fourth Quarter 2006** overall **occupancy** for Houston area apartments projects is **88.46%** (Class A = 90.48%; Class B = 89.47%; Class C = 86.05%; Class D = 83.40%). Occupancy is down 1.40 points from the third quarter and down 3.28 points over the past year. The overall monthly **rental rate** is **\$0.831 per square foot** (Class A = \$1.099; Class B = \$0.812; Class C = \$0.688; Class D = \$0.594). Overall rents are up \$0.003 from the third quarter of 2006 and \$0.014 over the past year.

Note: The multifamily projects listed herein are followed by their representative identification number as they appear in the new O'Connor & Associates **ApartmentLink Online Data** platform and are provided for subscriber cross-referencing. *The property information contained within this database is updated on a monthly basis and accessible over the web (please contact us for more details).*

- **Simmons Vedder & Co.** (713-626-9102) and **Crow Holdings** are developing a 304-unit complex (**17220**) at 2950 Old Spanish Trail in the Medical Center area (533J). The complex will feature one-, two-, and three-bedroom units. Construction on the complex is under way, with completion slated for spring 2008.
- **Realty Capital Corp.** (817-488-4200) is planning to develop a 288-unit complex (**17520**) at the intersection of Space Center Blvd. and Genoa Red Bluff Rd. in Pasadena (578J), adjacent to the Clearpoint Crossing development. The complex will be made up of approximately half one-bedroom and half two-bedroom units, averaging 945 square feet in size. Construction is slated to begin within the next three months, with completion expected in 16 months.

- According to the **National Multi Housing Council's January 2007 Quarterly Survey of Apartment Market Conditions**, conditions in the nationwide apartment market remain mostly positive. The survey measures four indexes of market conditions, in which a number greater than 50 indicates conditions are improving, while a number less than 50 indicates conditions are worsening. The Market Tightness Index dropped to 54, its lowest level in three years, but still an indication of improving conditions. The Sales Volume Index increased to 41, while the Debt Financing Index fell to 56. The Equity Financing Index was unchanged at 56, marking its 14th straight over-50 reading.

The following chart illustrates historical apartment occupancy.



TA Associates Realty (617-476-2700) purchased **Trails at Rock Creek (1567)** and **Trails at Rock Creek Phase II (1549)**, two Class A complexes totaling 653 units located at 12502 and 12613 Seattle Slew in northwest Houston (409E), from **Beeler Properties, Inc.** The 11- and 9-year-old complexes are 92% occupied with average rents at \$0.89 per square foot and \$0.91 per square foot, respectively. **Michelson Realty** will manage the properties. **Jim Hearne, Tom Warren, Ryan Terrell, Ed Cummins, Clint Duncan,** and **Heather Roos** of **Hendricks & Partners** brokered the sale.

MBS Management Services, Inc. (504-836-5075) purchased **Ashley House (15774)**, a 276-unit Class A complex located at 3903 S. Mason Rd. in Katy (485V), from **Judwin Properties**. The 5-year-old complex is 92% occupied with average rents at \$1.11 per square foot. **David Wylie** of **Apartment Realty Advisors** represented the seller.

839 East 19th Street, LP purchased **Mesa Ridge (3224)**, a 259-unit Class C complex located at 8000 Creekbend in southwest Houston (530Y), from **Waloon Properties, Inc.** The 31-year-old complex is 80% occupied with average rents at \$0.64 per square foot. **Brandon Brown** of **LMI Capital** arranged financing on behalf of the buyer for the acquisition of the complex.

Silver Maples Apartments, LLC purchased **Silver Maples (4131)**, a 152-unit Class B complex located at 3512 E. Broadway in Pearland (615P), from **Silver Maples, Ltd.** The 31-year-old complex is 95% occupied with average rents at \$0.83 per square foot. **David Malev** of **Houston Income Properties** represented the buyer, while **Jim Heard** of **Houston Income Properties** represented the seller. Financing was arranged by **Brandon Brown** of **LMI Capital**.

Khanh C. Nguyen purchased **Antoine Village (1605)**, a 148-unit Class C complex located at 5550 Holly View in northwest Houston (411Y), from **GAR Associates II, LP**. The 26-year-old complex is 95% occupied with average rents at \$0.71 per square foot. **Jim Scofield** and **Ken Steidley** of **Sperry Van Ness** represented the buyer, while **Patrick Tollett** of **Oak Leaf Management** represented the seller.

Lenora C. Winston purchased **Redstone Apartments (17510)**, a 67-unit complex located at 5401 Werner St. in north Houston (453A), from **Redstone Investment Properties, LLC**. The 47-year-old complex is 81% occupied. **Sheri Carey** and **Jeff Fript** of **Marcus & Millichap** represented the seller.

SINGLE-FAMILY HOUSING

MLS home sales decreased in January, as 4,017 used homes were sold, down from the 5,884 homes sold in December, according to the **Houston Association of Realtors (HAR)**. Sales for January 2007 were up 10.1% from January 2006. The median price of a used single-family home sold in December was \$142,000, up 2.9% from January of last year, while the average home price was \$181,350, up 1.4% from the January 2006 level. *Note: MLS sales include primarily used home sales throughout the Houston region. Historical comparisons are offered solely for informational purposes and may not truly reflect growth in sales.*

According to **American MetroStudy**, net sales of new homes increased 25% in January to 2,292 from 1,775 in December, and are down 17% from January 2006. Realtor co-op sales represented 57% of gross sales, down from 59% in January 2006. Traffic decreased 12% from last year to 25,630 in January 2007. The inventory of completed speculative homes (2,261) is up 7% from last year. There are 3,371 spec homes under construction, which is down 16% from 2006. Overall, the 5,632 specs (both completed and under construction) represent an 8% decrease from 2006. *Note: the 24 homebuilders in this survey account for approximately 65% of housing starts in Houston.*

Nationwide sales of new single-family homes decreased in January to a seasonally adjusted annual rate of 937,000, 16.6% below the revised December sales rate of 1,123,000, and 20.1% below the January 2006 figure, according to a release by the **U.S. Department of Commerce**. The median sales price was \$239,800. Privately owned housing starts were at a seasonally adjusted annual rate of 1,408,000 in January 2007, 37.8% below the January 2006 figure. Privately owned housing completions were at a seasonally adjusted annual rate of 1,880,000 in January 2007, 8.0% below the January 2007 figure.

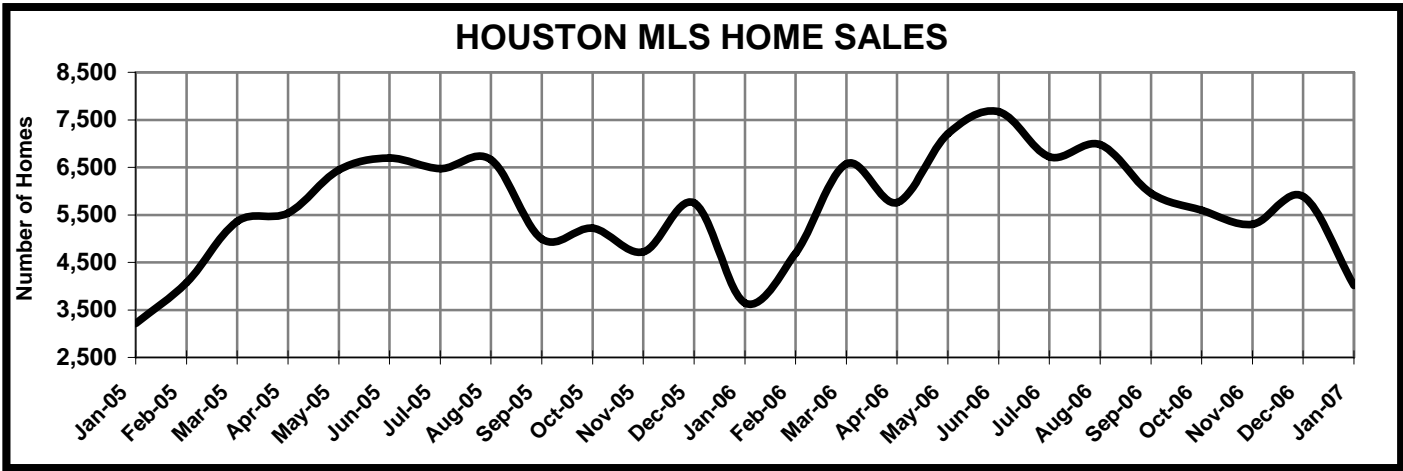
The **National Association of Home Builders/Wells Fargo Housing Market Index**, a monthly measure of builder confidence, increased 5 points in February to 40 on a scale where any number greater than 50 indicates that builders view sales as more good than poor. The index measuring current sales of new single-family homes increased by 6 points to 42, the index measuring sales expectations for the coming six months gained 7 points to 55, while the index measuring the traffic of prospective buyers increased 5 points to 31.

According to the **National Association of Realtors (NAR)**, 363,000 existing homes were sold in January 2007, down 22.6% from the 469,000 sold in December 2006, and down 2.7% from the 373,000 homes sold in January 2006. The median sale price was \$210,600, a 3.1% decrease from sale prices a year ago.

According to the most recent report by **RealtyTrac, Inc.**, Texas had the highest number of new foreclosure filings of any state in January. Statewide, 14,728 new foreclosures were filed in January, equating to one for every 547 households, the sixth-highest rate per household in the nation. January 2007 foreclosures increased less than 1% over January 2006 foreclosures. Nationwide, 130,511 new foreclosures were filed in January, an increase of nearly 25% over January 2006, and equating to one foreclosure for every 886 households.

Galveston city officials plan to send a survey to residents in their March water bills pertaining to high-rise development on the island. The survey includes questions on what city residents think has the most successful waterfront development, as well as which areas of town are most suitable for high-rise development. The survey responses will be used to help officials create a height master plan for the island. The city does not expect to have new regulations in place before this summer.

The following chart illustrates historical used home sales.



Source: Houston Association of Realtors

Wilbow-Barton Woods Development, LLC (972-479-0697) is planning to develop **Barton Woods**, a 588-home community along Loop 336 east of FM 1314 in Conroe (188L), surrounding **Carl Barton Park**. Homes will range from 1,800 to 4,000 square feet, with prices between \$160,000 and \$300,000. The community will also have convenient access to the park's fishing lake, nature trails, and soccer and baseball fields. Construction is slated to begin in the summer of 2007, and full build-out is expected to take seven years.

JNP Acquisitions (281-461-3434) is planning to develop **Palm Bay Resort**, a community featuring 30 homes located at 25th and Railroad streets in San Leon (661Z). The homes will sell for \$130-140 per square foot, and will average 2,188 square feet in size. The community will feature tennis courts and a lake. Construction is scheduled to begin in April. Pre-sales are under way, with **Castaways Resort Properties** and **Keller/Williams Texas Gulf Properties** handling sales.

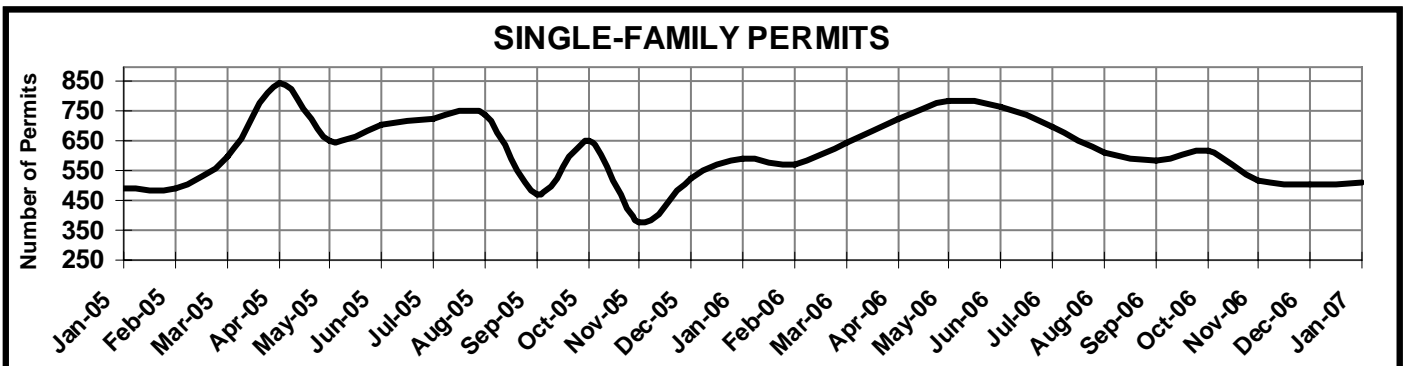
PERMIT ISSUANCE

The **City of Houston** issued permits to build 510 private single-family houses and 8 private multifamily buildings in January. Demolition permits were issued for 173 private single-family houses. In addition, 199 permits were issued for privately owned non-residential construction totaling \$89,817,744 and 9 permits were issued for public non-residential construction totaling \$7,004,000. Additions, alterations, and conversions totaled \$132,728,113 for the private sector and \$25,185,256 for the public sector.

Cost of Construction*

	2005	2006	2007
Month of January	\$277,805,088	\$294,755,332	\$378,498,844
Year-to-Date	\$277,805,088	\$294,755,332	\$378,498,844

* The figures in this section include all categories of buildings and non-building structures



OFFICE BUILDINGS

While rental rates increased substantially in 2006, putting pressure on tenants, the increases are likely not over. Class A rents led the pack in 2006, followed by Class B. Furthermore, increases in operating expenses added to the increase in overall costs for tenants. Many believe the rent increases will continue in 2007, and operating expenses will probably continue to rise as well due to increases in costs for janitorial services, utility rates, and insurance rates. These increases will probably be most pronounced in Class A, making top-flight space still more expensive as 2007 progresses. As Class A rents rise, more and more tenants will look to cheaper space in Class B and C buildings. In turn, increased demand for this type of space will enable Class B and C landlords to raise rents. Even with the expected rent increases, users should still view Class B and C space as a bargain, considering the high costs of space in Class A.

According to the O'Connor & Associates **Fourth Quarter 2006 Houston Office Data Program**, citywide **occupancy** for Houston area multi-tenant office buildings is **86.21%** (Class A = 90.24%; Class B = 83.75%; Class C = 82.00%; Class D = 78.36%). The citywide annual multi-tenant office **rental rate** is **\$19.66 per square foot** (Class A = \$23.23; Class B = \$17.66; Class C = \$14.23; Class D = \$11.60).

Note: The office buildings listed herein are followed by their representative sector code and identification number as they appear in the O'Connor & Associates **Houston Office Data Program** and are provided for subscriber cross-referencing. The property information contained within this database is updated and published on a quarterly basis (contact us for more information).

- **The Blackstone Group** (212-583-5000) agreed to buy out **Equity Office Properties Trust** (312-466-3300) for \$23 billion, or \$55.50 per share. Despite a higher bid from Vornado Realty Trust, Equity Office shareholders approved the Blackstone deal because Vornado's buyout would have taken longer to complete. Equity Office, which owns more than 580 buildings nationwide encompassing over 105 million square feet, exited the Houston market approximately a year ago, although Blackstone owns several Houston buildings in a joint venture with Brookfield Properties Corp.
- **Crescent Real Estate Equities Co.** (817-321-2100) announced plans for a corporate restructuring that will transform the company into a real estate investment trust focusing solely on office properties. The company plans to sell its resort, hotel, and residential properties, as well as many of its office properties. Despite plans to sell 13 of 18 buildings it owns in the Dallas-Fort Worth area and all of its Austin buildings, Crescent does not plan to sell any of its Houston-area assets. After the sales, Crescent is expected to own approximately 23 million square feet of office space. Crescent currently owns nearly 11 million square feet of space in Houston.
- **Transwestern** (713-270-7700) has taken over leasing responsibilities at **Decorative Center of Houston (GAL 146)**, a 675,000-square-foot Class A office building located at 5120 Woodway in the Galleria area (491H). The property, owned by **Cohen Brothers Realty Co.** (212-838-1800), is 79% occupied with average rents at \$21.50 per square foot. **Brad Sinclair** of Transwestern is handling leasing.

The following chart illustrates historical office occupancy.



Moody National Cos. (713-977-7500) purchased **World Houston Plaza (GNB 017)**, a 216,000-square-foot Class A building located at 15710 JFK Blvd. in north Houston (374P), from **KBS Realty Advisors**. The 21-year-old building is 91% occupied with average rents at \$21.50 per square foot. The buyer was represented in-house by **Teddy Dykoski**, while **Ken Page** of **Cushman & Wakefield** represented the seller.

Archway Properties (713-273-8989) purchased **10120 Northwest Fwy. (NNW 073)**, a 33,000-square-foot building in northwest Houston (451V), from **Dacoma 290 Trust**. The 36-year-old building is 87% occupied with average rents at \$11.00 per square foot. The buyer was represented in-house by **David Littwitz**, while **Norman Munoz** and **Coy Davidson** of **Colliers International** represented the seller.

Deloitte & Touche USA leased 291,000 square feet in **Heritage Plaza (CBD 094)**, a 1,149,000-square-foot Class A building located at 1111 Bagby in the Central Business District (493Q), from **Goddard Investment Group** (404-442-5500). The 21-year-old building is 87% occupied with average rents at \$31.00 per square foot. The tenant used in-house representation to negotiate the transaction, while **Matt Schendle** of **Cousins Properties** represented the landlord.

Shaw Facilities, Inc. leased 50,000 square feet at **1401 Enclave Pkwy. (WES 147)**, a 207,000-square-foot Class A building in Westchase (488L), from **Triple Net Properties, LLC** (713-802-9045). The 8-year-old building is fully leased with average rents at \$18.13 per square foot. **Jim Graham** and **Chad Schulin** of **Fischer Co.** represented the tenant, while **Greg Tilton** of **Transwestern** represented the landlord.

Linn Energy leased 44,000 square feet in **JPMorgan Chase Tower (CBD 057)**, a 1,683,000-square-foot Class A building located at 600 Travis in the Central Business District (493L), from **Prime Asset Management, Inc.** (713-228-7261). The 25-year-old building is 86% occupied with average rents at \$28.87 per square foot. **Christopher Oliver** and **Trey Strake** of **Cushman & Wakefield** represented the tenant, while **Chrissy Wilson** of **Hines** represented the landlord.

Holliday Fenoglio Fowler leased 32,000 square feet at **Coastal Tower (GPL 023)**, a 747,000-square-foot Class A building located at 9 Greenway Plaza in southwest Houston (492X), from **Crescent Real Estate Equities Co.** (713-840-1170). The 29-year-old building is 57% occupied with average rents at \$13.00 per square foot. **Steve Biegel**, **Drew Morris**, and **Mark Russell** of **Studley** represented the tenant, while the landlord was represented in-house by **Warren Savery** and **Rosemary Kogler**.

Hilb, Rogal, and Hamilton leased 26,000 square feet in **Ashford VI (KFW 007)**, a 183,000-square-foot Class A building located at 1155 Dairy Ashford in west Houston (488D), from **Falcon Southwest** (512-377-4400). The 26-year-old building is 93% occupied with average rents at \$20.50 per square foot. **Sandy Benak** of **Granite Properties** represented the tenant, while **Bob Cromwell** of **Moody Ramin** represented the landlord.

Alliance Wood Group Engineering leased 20,000 square feet in **Parkview II (P10 015)**, a 65,000-square-foot Class A building located at 333 Cypress Run in the Park 10 area (487A), from **KBS Realty Advisors** (949-417-6500). The 21-year-old building is fully leased with average rents at \$20.00 per square foot. **Mark O'Donnell** of **Studley Houston** represented the tenant, while **Doug Little** of **PM Realty Group** represented the landlord.

Huron Consulting Services leased 19,000 square feet in **One Bering Park (GAL 019)**, a 114,000-square-foot Class B building located at 750 Bering Dr. in the Galleria area (491K), from **750 Bering Group, LLC** (713-659-1221). The 26-year-old building is 97% occupied with average rents at \$19.75 per square foot. **Jim Bell** of **Jones Lang LaSalle** represented the tenant, while **Chip Horne** of **Cushman & Wakefield** represented the landlord.

Abitibi Consolidated Corp. leased 17,000 square feet at **616 FM 1960 West (CPQ 112)**, a 142,000-square-foot Class A building in northwest Houston (332P), from **KBS Realty Advisors** (949-417-6500). The 24-year-old building is 85% occupied with average rents at \$17.00 per square foot. **Robert Bantly** of **Grubb & Ellis** represented the tenant, while **Wanda Wilson** and **Marcie Phillips** of **PM Realty Group** represented the landlord.

MetLife leased 15,000 square feet in **One Memorial City Plaza (KFW 011)**, a 236,000-square-foot Class A building located at 800 Gessner in west Houston (490A), from **MetroNational Corp.** (713-973-6400). The 26-year-old building is 93% occupied with average rents at \$22.00 per square foot. **Louis Rosenthal** of **Jones Lang LaSalle** represented the tenant, while the landlord was represented in-house by **John Green**.

Demar Engineering leased 14,000 square feet in **Regency Square (SWF 058)**, a 219,000-square-foot Class B building located at 6200 Savoy in southwest Houston (530D), from **Unilev Capital Corp.** (713-850-7878). The 29-year-old building is 88% occupied with average rents at \$14.50 per square foot. **John Parsley** of **Colliers International** represented the tenant, while **Darrell Betts** of **Grubb & Ellis** represented the landlord.

Horace Mann Service Corp. leased 14,000 square feet in **Transworld Financial Center (NNW 089)**, a 157,000-square-foot Class B building located at 13111 Northwest Fwy. in northwest Houston (410Y), from **Northwest Building, Ltd.** (713-895-5089). The 26-year-old building is 78% occupied with average rents at \$16.00 per square foot. **Scott Covington** of **S. E. Covington** represented the tenant, while **Louis Rosenthal** of **Jones Lang LaSalle** represented the landlord.

Velocity Futures leased 12,000 square feet at **1220 Augusta (GAL 133)**, a 113,000-square-foot Class B building in the Galleria area (491P), from **William Condrey** (713-266-4626). The 24-year-old building is 65% occupied with average rents at \$18.00 per square foot. **Josh LaRocca** of **Mohr Partners** represented the tenant, while **Robert Parsley** and **Jay Kyle** of **Colliers International** represented the landlord.

RETAIL CENTERS

While rental rates increased just \$0.01 per square foot in 2006, ending the year at \$1.59 psf, the trend is likely to swing upward in 2007. New construction will be coming online in droves in the coming year, as over 11 million square feet of space is in the works, much of which will carry high rents as construction is completed. The Far Southwest sector is leading the way, with over 3 million square feet underway, much of which is in NewQuest's Brazos Town Center and Brazos Town Commons in Rosenberg. The South sector is also booming, with over 2 million SF under construction; notable projects include Pearland Town Center and Shadow Creek Ranch Town Center. Rents for the new space in these areas are high, as retailers compete to be the first to break into these somewhat underserved areas. In turn, rents for the sectors as a whole are likely to increase. However, rental rates in sectors of Houston proper outside the high-demand Inner Loop and Galleria areas may hold steady or decline, as retailers flock to the suburbs and their brand-new centers and excellent demographics.

According to the O'Connor & Associates **Fourth Quarter 2006 Houston Retail Data Program**, citywide **occupancy** for Houston area multi-tenant retail buildings is **85.75%** (Regional = 86.16%; Community = 86.77%; Neighborhood = 85.34%; Strip = 84.20%). Occupancy is up 0.20 points over the last quarter, but down 0.69 points over in the past 12 months. The citywide monthly multi-tenant retail **rental rate** is **\$1.59 per square foot** (Regional = \$2.97; Community = \$1.55; Neighborhood = \$1.16; Strip = \$1.14). Overall rents are up \$0.02 from the last quarter, and up \$0.01 from last year's figure.

Note: The retail centers listed herein are followed by their representative sector code and identification number as they appear in the O'Connor & Associates **Houston Retail Data Program** and are provided for subscriber cross-referencing. The property information contained within this database is updated and published on a quarterly basis (contact us for more information).

- **Whole Foods Market, Inc.** agreed to buy rival **Wild Oats Markets, Inc.** for nearly \$700 million. Whole Foods will pay \$18.50 per share for Wild Oats, paying \$565 million in cash and assuming \$106 million of Wild Oats' debt. Whole Foods will gain 110 stores with the purchase; however, the company plans to close some locations. The company operates four stores in the Houston area.
- **Gap, Inc.** announced plans to close its 19 **Forth & Towne** stores after just 18 months of operation. According to the company, its analysis did not demonstrate enough potential for the stores to deliver an acceptable return on investment. The stores, which sold apparel aimed at women over 35, are expected to close by June. Forth & Towne has two locations in Houston; one in the **Galleria (NRW 084)**, a 2,500,000-square-foot center in west Houston, and one in **Market Street (FNO 197)**, a 292,000-square-foot center in The Woodlands.
- According to **Wulfe & Co.'s Annual Retail Building Survey**, approximately 4.2 million square feet of new retail space will be completed in the Houston area in 2007. The report estimates the cost of the new retail construction this year will exceed \$400 million, and that discount department stores will account for 17% of the new construction, with supermarkets representing 15%. The report names the continued expansion of branch banks as one of the most visible trends in 2007, estimating that 20 to 25 new bank facilities will open this year.
- A recent study by **The Nielsen Co.** found several preferences and tendencies that affluent shoppers have. Households earning in excess of \$100,000 per year were more than 100% more likely to shop at a warehouse club store and 9% more likely to shop at a mass merchandiser than households earning \$20,000 or less. Affluent shoppers typically spend \$111 per trip to a warehouse club, \$46 more than lower-income shoppers; affluent shoppers spend \$18 more per trip to grocery stores and mass merchandisers than lower-income shoppers. Also popular among affluent shoppers were department and office supply stores, electronics outlets, news/bookstores, and pet and liquor stores.

The following chart illustrates historical retail occupancy.



A joint venture between **Kimco Realty Corp.** (832-242-6913) and **Crow Holdings** purchased **Conroe Marketplace (FNO 263)**, a 380,000-square-foot center located at 2800-2900 Interstate 45 in Conroe (157L), from **Gulf Coast Commercial Group**. The year-old center, which features tenants **Bed, Bath & Beyond** and **TJ Maxx**, is 90% occupied with average rents at \$1.33 per square foot. The buyer was represented in-house by **Ed Seneman**, while **George Cushing** of **Grubb & Ellis** represented the seller.

New Plan Excel Realty Trust (713-660-4300) purchased **Baybrook Gateway Center (FSE 160)**, a 250,000-square-foot center located at 1001 W. Bay Area Blvd. in Webster (618W), from **Eastfield Realty**. New Plan also signed several new leases at the center; **Circuit City** leased 32,000 square feet, **Linens-N-Things** leased 28,000 square feet, and **Cost Plus World Market** leased 18,000 square feet. The 12-year-old center is fully leased with average rents at \$2.33 per square foot. In the Circuit City lease, **Ed James** of **Moody Rambin** represented the tenant; in the Linens-N-Things lease, **Keith Bierly** of **Katz & Associates** represented the tenant; and in the Cost Plus World Market lease **Dean Fogel** represented the tenant. **Michael Thumb** of **The Woodmont Co.** represented the landlord in all three leases.

SAMCO Properties (954-354-0425) purchased **Cypresswood Commons (FNO 196)**, an 87,000-square-foot center located at 20075 North Fwy. in north Houston (332B), from **Gulf Coast Commercial Group**. The 5-year-old, **LA Fitness**-anchored center is fully leased with average rents at \$1.63 per square foot. The buyer was represented in-house by **Sam Spiegel**, while **George Cushing** and **Wendy Vandeventer** of **Grubb & Ellis** represented the seller.

Houston Group of Real Estate Holdings, LLC purchased **Woodscape Plaza (NSW 065)**, a 28,000-square-foot center located at 9601 S. Gessner in southwest Houston (530T), from **Broadway Plaza Partners, Ltd.** The 27-year-old center is 60% occupied with average rents at \$0.65 per square foot. The buyer was represented in-house, while **John Scales** of **Eling Corp.** represented the seller.

Chuck Nguyen purchased **1001 S. Richey St. (NSE 335)**, a 12,000-square-foot center in Pasadena (536L), from **Friendly Realty**. The 35-year-old center is fully leased. The buyer was self-represented in the transaction, while **John Scales** of **Eling Corp.** represented the seller.

Best Buy leased 30,000 square feet at **Victory Lakes Town Center (FSE 417)**, a 383,000-square-foot center located at the Gulf Fwy. and FM 646 in League City (699A), from **NewQuest Properties** (281-477-4300). The center, which is under construction, is 8% preleased. **Kenneth Katz** of **Baker Katz** represented the tenant, while the landlord was represented in-house by **Heather Nguyen**.

INDUSTRIAL FACILITIES

As industrial users look to expand and construct new facilities, rail access will continue to be a selling point. Rail access is a widely desired amenity among industrial users, as it makes for easy access to raw goods, and simplifies distribution activities. According to an industrial broker active in the Houston area, rail access is the most common amenity asked for by industrial users. However, Houston is designated as a "Restricted Access" zone by Union Pacific Railroad. What this means is that new rail access is heavily restricted and difficult to obtain; new facilities must follow various guidelines, such as providing trains enough track on the property to clear the main railroad line completely. Even following all of the guidelines does not guarantee rail access will be provided. The new regulations and uncertainty surrounding availability could have an effect on new development, as some other nearby markets are not subject to such stringent regulations, and industrial users could decide these markets are a better fit.

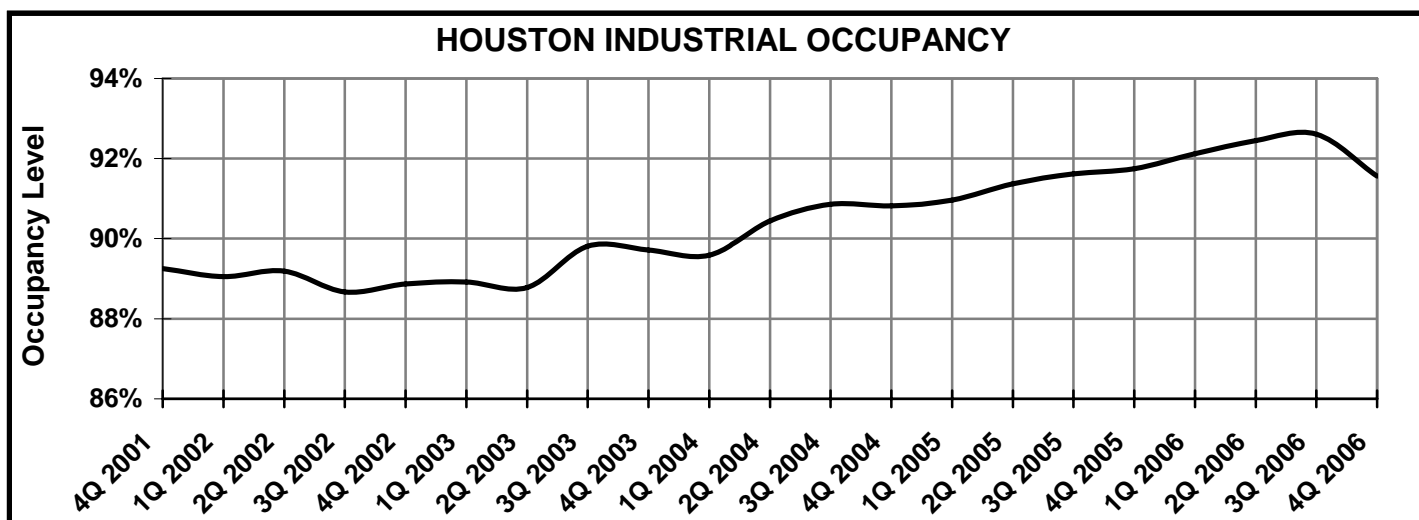
According to the O'Connor & Associates **Fourth Quarter 2006 Houston Industrial Data Program**, citywide **occupancy** for Houston area operating industrial facilities is **91.56%** (Flex = 88.74%; Bulk = 92.92%; Manufacturing = 93.73%, Service = 85.25%, Distribution = 89.46%, R&D = 94.69%). Occupancy is down 1.05 points from the last quarter, and down 0.43 points over the last year. The overall monthly **rental rates** remained flat at **\$0.43 per square foot** (Flex = \$0.45; Bulk = \$0.36; Manufacturing = \$0.35, Service = \$0.55, Distribution = \$0.39, R&D = \$0.59).

Note: The industrial facilities listed herein are followed by their representative identification number as they appear in the O'Connor & Associates **Houston Industrial Data Program** and are provided for subscriber cross-referencing. The property information contained within this database is updated and published on a quarterly basis (contact us for more information).

- A joint partnership between **First Industrial Realty Trust, Inc.** (713-681-0885) and **CalSTRS** is planning to develop **InterPort Business Park (5248A)**, a 1,300,000-square-foot, two-building distribution facility on 88 acres at 12801 Bay Area Blvd. in Pasadena (580N), between **Barbour's Cut Container Terminal** and **Bayport Container Terminal**. Construction on the facility, which will feature 30-foot clearance, is scheduled to commence in March, with completion slated in 6 to 8 months. **Hans Brindley** of First Industrial is handling leasing.

- **Vantage Cos.** (713-780-4300) is planning to develop **Bayport North Distribution Center Phase II (5234P)**, a 773,000-square-foot distribution center located on a 41-acre tract of land at Underwood and Fairmont Pkwy. in Pasadena (579E) recently purchased from **North Bayport Industrial Park II**. Plans call for a 600,000-square-foot building with 30-foot clearance alongside a 173,000-square-foot building with 24-foot clearance. Rents at the facility will average \$0.36 per square foot. Construction is expected to begin in April, with completion slated for late 2007. In the land sale, the buyer was represented in-house by **Stephen Jaggard**, while **Kelley Parker** and **John Littman** of **Cushman & Wakefield** represented the seller.
- **Colliers Property Management Services Co.** (713-830-2111) has opened a Houston office and taken over management duties at three facilities: **Alamo Crossing Commerce Center (0736A, 0736B, 0736C, 0736D, 0736E)**, a 5-building complex totaling 1,347,000 square feet along Northcourt Rd. near Highway 249 in northwest Houston (410Y); **Advo Distribution Center (4398D)**, a 135,000-square-foot distribution facility located at 801 Seaco Ct. in Deer Park (537G), and **801 Congress (CBD 093)**, a 44,000-square-foot Class B office building in the Central Business District (493L).
- **The Port of Houston Authority** (713-670-2400) approved \$11 million in projects at the port. Projects will include installation of access control systems at the North Turning Basin restricted areas, as well as maintenance dredging of non-federal berthing areas and the Barbour's Cut Channel by the **U.S. Army Corps of Engineers**.

The following chart illustrates historical industrial occupancy.



The National Realty Group (713-956-1000) purchased **7611 Railhead (0650C)**, a four-building, 454,000-square-foot office/warehouse complex in northwest Houston (410D), from **Royal Window Coverings**. The 10-year-old complex is fully available with average rents at \$0.38 per square foot. The buyer was represented in-house by **Steve Adkisson**, while **George Jones** and **Miles Kettner** of **CB Richard Ellis** represented the seller.

Liberty Property Trust (281-955-2000) purchased two recently completed office/warehouse facilities in **Beltway at Bammel Business Park** in northwest Houston (370V). The facilities include: **5200 N. Sam Houston Pkwy. W. (0256E)**, a 134,000-square-foot facility featuring 18-foot clearance with dock- and grade-level loading; and **5250 N. Sam Houston Pkwy W. (0256F)**, a 192,000-square-foot facility featuring 24-foot clearance with dock- and grade-level loading. Both facilities are available for lease.

GBS Linens of Texas, Inc. (214-828-2600) purchased **9845 Drysdale Ln. (1240)**, a 14,000-square-foot warehouse located in northwest Houston (450B), from **9845 Drysdale, LP**. The 23-year-old facility is partially owner occupied, with the remainder fully leased with average rents at \$0.45 per square foot. The facility features 13-foot clearance with ground-level loading. **Clay Peeples** of **Boyd Commercial** represented the buyer, while **Marc Drumwright** of **Southwest Realty Advisors** represented the seller.

Britt-Wheel Investments, LLC (713-621-9242) purchased **1165 Brittmore Rd. (1153)**, a 10,000-square-foot warehouse located in west Houston (449Y), from **Charles N. Schwarz, Jr.** The 27-year-old facility, which features 16-foot clearance and ground-level loading, will be owner occupied. **Webb Bishop of Newmark Knight Frank** represented the buyer, while **Marc Drumwright of Southwest Realty Advisors** represented the seller.

Packwell renewed their lease of **8786 Wallisville Rd. (3481)**, a 137,000-square-foot warehouse facility in northeast Houston (495B), from **TIAA-CREF** (212-490-9000). The 35-year-old facility features 24-foot clearance with dock-level loading. **Bill Rudolf of CB Richard Ellis** represented the tenant, while **Jon Michael of Holt Lunsford Commercial** represented the landlord.

Canal Warehousing leased 132,000 square feet at **Bayport North Distribution Center (5234N)**, a 565,000-square-foot facility located at 4330 Underwood in Pasadena (579E), from **Carson Co.** (949-725-6525). The year-old facility, which features 26-foot clearance, is 24% occupied with average rents at \$0.33 per square foot. **Corey Ferguson of Pacific Financial** and **Kelley Parker of Cushman & Wakefield** represented the tenant, while **Walter Menuet and Ryan Cropper of Vantage Cos.** represented the landlord.

Cameron Flow Control leased **4903 W. Sam Houston Pkwy. N. (1083D)**, a 25,000-square-foot office/warehouse facility in northwest Houston (449G), from **Chapman & Cole** (713-975-6969). Rents at the facility, which features 24-foot clearance with grade-level loading, are \$0.48 per square foot. **Thad Hickman and Tyndall Yaap of Grubb & Ellis** represented the tenant, while **Glynn Mireles of CB Richard Ellis** represented the landlord.

Superior Offshore leased **10831 Train Ct. (1075B)**, a 23,000-square-foot office/warehouse facility in northwest Houston (449C), from **Palmer Interests, LLC** (713-466-8395). Rents at the facility are \$0.61 per square foot. **Tyndall Yaap of Grubb & Ellis** represented the tenant, while **Marc Drumwright of Southwest Realty Advisors** represented the landlord.

Cornerstone Hardware leased 21,000 square feet at **Glenmont Business Park 2 (4043R)**, a 108,000-square-foot office/warehouse facility located at 8648 Glenmont in southwest Houston (530C), from **East Group Properties** (601-354-3555). The 8-year-old facility, which features 24-foot clearance, is fully leased. **Chris Caudill and Joel Michael of NAI Houston** represented the tenant, while **Steve Hazel of Insite Commercial Real Estate** represented the landlord.

Newdell leased **7612 Bluff Point (0244A)**, a 17,000-square-foot warehouse in northwest Houston (371S), from **Capital Commercial Development** (512-472-6990). Rents at the 8-year-old facility average \$0.55 per square foot. **Mike Taetz and Cody Christoph of Colliers International** represented the tenant, while **Tyndall Yaap and Thad Hickman of Grubb & Ellis** represented the landlord.

S.A. Chicas Trucking Co. leased 11,000 square feet at **Beltway Service Center I (3772)**, a 120,000-square-foot facility located at 10515 Harwin Dr. in southwest Houston (529D), from **Halawa View Apartments**. The 32-year-old facility is fully leased with average rents at \$0.53 per square foot. The facility features 18-foot clearance with semi-dock-level loading. The tenant was represented in-house, while **Walter Menuet and Ryan Cropper of Vantage Cos.** represented the landlord.

VACANT LAND

Memorial Hermann (713-448-5555) has placed its former Missouri City hospital, located at the northeast corner of Highway 6 and FM 1092 (609L), up for sale. The tract, which is being marketed for land value, encompasses approximately 20 acres. Memorial Hermann originally planned to convert the facility to a long-term acute care center, but now plans to sell the property. The hospital closed with the opening of **Memorial Hermann Sugar Land Hospital**.

Magnolia Crossing 2005 purchased 30.7 acres of land along Interstate 45 south of FM 646 in League City (699A), from **Silvestri Investments**. The buyer was represented in-house by **Roger Baker**, while **Simmi Jaggi** and **Elizabeth Clampitt** of **CB Richard Ellis** represented the seller.

Steadmont Warehouses, Inc. purchased 9.66 acres of land along Campbell Rd. at Bamboo St. in northwest Houston (450B), from **Essex Fairbanks Investors #3, LP**. The buyer plans to develop 10 freestanding warehouses on the property to be leased or sold. **Aron Grenader** of **First Houston Properties** represented the buyer, while **Marc Drumwright** of **Southwest Realty Advisors** represented the seller.

GSL Industrial (713-952-7000) purchased 6.9 acres of land along New Century Dr. near Fairmont Pkwy. in Pasadena (579E), in **Bayport North Industrial Park**, from **North Bayport Industrial Park, LP**. GSL plans to develop single-tenant industrial facilities on the site. The buyer was represented in-house by **Glenn Bratcher** and **Ryan Wasaff**, while **B. Kelley Parker**, **John Littman**, and **H. Frank Stanley** of **Cushman & Wakefield** represented the seller.

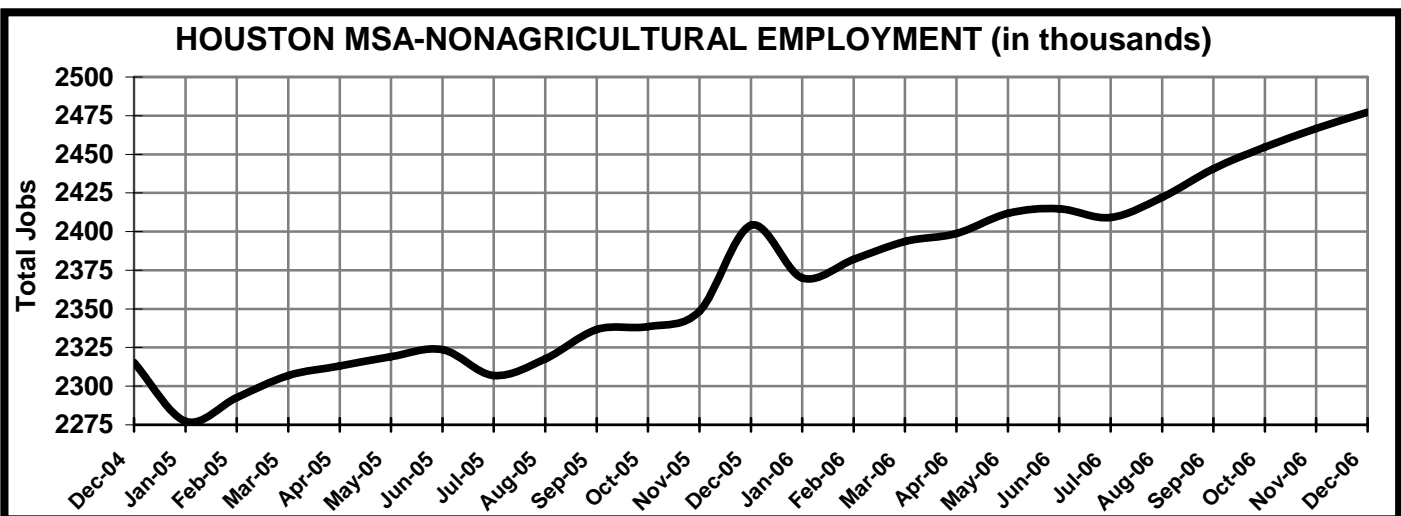
Land Home Investments (281-380-2682) purchased 3 acres of land located at Misty Meadow and FM 1774 in Magnolia (212Z), from **Estate of Edwin A. Allseitz, Jr.** Tentative plans call for single-family home development on the site. **Ron Laird** of **Laird Real Estate Auctions** represented the seller.

Fairmont Equity Partners (713-524-4681) purchased 2.7 acres of land on the north side of Fairmont Pkwy. between Panama and Watters in Pasadena (577F), from **Cigna Healthcare of Texas**. **Marshall Clinkscales** of **MSC Properties** represented the buyer, while **Simmi Jaggi** of **CB Richard Ellis** represented the seller.

ECONOMIC & FINANCIAL NEWS

The total number of wage and salary jobs in the ten-county Houston area increased by 8,900 jobs to 2,477,200 in December 2006, according to the **Texas Workforce Commission**. This month's total is 73,100 jobs more than the 2,404,100 jobs at this time last year. Of nonagricultural employers, the Trade, Transportation, & Utilities sector posted the largest gain over the month at 8,200 jobs, followed by the Leisure & Hospitality sector, with 1,400 jobs gained. Over the year, the Professional & Business Services sector has had the largest increase in employment, adding 17,600 jobs, followed by the Natural Resources, Mining, & Construction, which added 16,300 jobs.

The following chart illustrates total non-agricultural employment in the Houston MSA.



Source: Texas Workforce Commission (TWC)

Advance estimates reported by the **U.S. Department of Commerce** show that seasonally adjusted national retail and food services sales for January 2007 were \$370.4 billion, virtually unchanged from the previous month, and up 2.3% from January 2006. Retail trade sales were up 0.1% from December, and were 2.0% above last year's level.

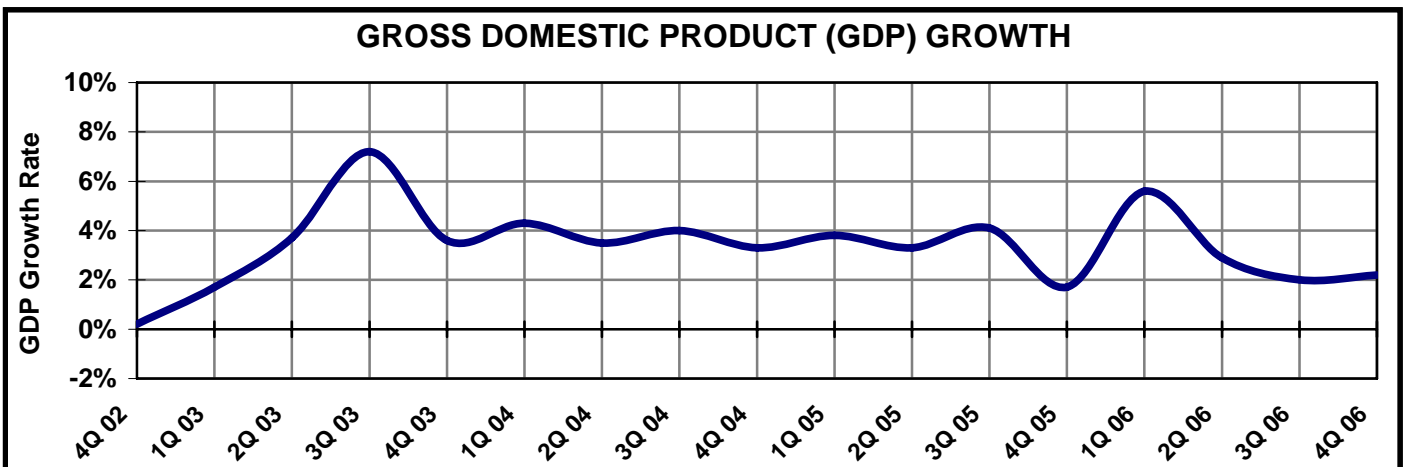
Personal income increased \$108.1 billion, or 1.0%, and Disposable Personal Income (DPI) increased \$73.0 billion, or 0.8%, in January 2007, according to the **Bureau of Economic Analysis**. Personal Consumption Expenditures (PCE) increased \$51.9 billion, or 0.5% in January 2007. Meanwhile, the **U.S. Department of Labor** reports that the seasonally adjusted Consumer Price Index (CPI) for urban consumers increased 0.3% in January 2007, and is 2.1% higher than in January 2006. Other goods and services, medical care, food and beverages, and apparel posted the largest increases in price during January 2007.

The latest **Conference Board Survey** indicates that the **Consumer Confidence Index** increased to 112.5 in February 2007, up 2.3 points from 110.2, in January. The index is an indicator of consumers' overall assessment of current conditions, relative to a figure of 100 in 1985, the base year. The **Index of Leading Economic Indicators** decreased 0.1% in January to 138.5. The index is an indicator of direction the economy is expected to take in coming months, relative to a figure of 100 in 1996, the base year.

According to the **Federal Reserve**, industrial production decreased 0.5% in January, but is 2.6% higher than the January 2006 level. Output in the manufacturing sector decreased 0.7% in January, output of utilities increased 2.3% over the month, while output at mines declined 1.2%. The rate of industrial capacity utilization was 81.2% in January, which reflected a decrease of 0.6 points from the previous month, and a 0.1-point increase above the previous year's level.

Freddie Mac reports that the **30-year fixed-rate mortgage (FRM)** averaged 6.22% in January 2007, which is up 0.08 points from December, and is up 0.07 points from one year ago. The average for the **15-year FRM** was 5.97% in January 2007, which is 0.09 points above last month's level, and is 0.26 points higher than it was in January 2006.

The **U.S. Department of Commerce** reports that real GDP, the output of goods and services produced by labor and property in the United States, increased at an annual rate of 2.2% in the fourth quarter of 2006, up from the 2.0% growth rate recorded in the third quarter of 2006. The increase in GDP during the fourth quarter was attributed to positive contributions from personal consumption expenditures, exports, state and local government spending, and federal government spending.



Source: Department of Commerce

The **Baker Hughes** count of active domestic rotary rigs stands at 1,754 during the week ending February 23, 2007. The rig count in February is up 13.7% from last year's figure of 1,543 rigs. The rotary rig count is a census of the number of drilling rigs actually exploring for or developing oil or natural gas in the U.S.

The **U.S. Department of Commerce** reports that construction spending during January 2007 was estimated at a seasonally adjusted annual rate of \$1,180.2 billion, 0.8% below the revised December 2006 estimate. The January figure is 1.2% below the January 2006 estimate of \$1,194.5 billion. Private residential construction was at a seasonally adjusted annual rate of \$575.4 billion in January, 1.8% below the revised December estimate of \$586.1 billion, and 12.7% below the January 2006 estimate of \$670.1 billion.

POTPOURRI

A recent study commissioned by **Independent Insurance Agents of Texas** and conducted by noted economist **Ray Perryman** suggests that a major hurricane strike on the Texas Gulf Coast could devastate the state's economy. The study quantifies how much the rest of the state's economy is dependent on Texas' port cities. According to the study, as much as 56% of the economy in the state's different sectors is tied to the Gulf Coast. The study also indicates that 40% of jobs in the state are tied to production along the coast, and 44% of the state's total income is related to the coast. The group hopes to use the study to convince the Texas Legislature to increase funding to the Texas Windstorm Insurance Association, which provides windstorm insurance to businesses and consumers who cannot obtain it through other means.

The **City of Houston** selected **EarthLink Municipal Networks** to build a citywide wireless Internet network. The agreement sets a price of \$12 per subscriber per month for access to the network, which EarthLink will sell to various service providers, who will in turn sell access to consumers after adding a profit margin into the price. The agreement also provides for free access in some public places, including parks and libraries. Plans call for the network to cover nearly all of Houston's 600 square miles by the spring of 2009, which would make it the largest such network in North America.

The **Metropolitan Transit Authority Board** voted to authorize right-of-way acquisitions along Metro's proposed North, Southeast, East End, and Uptown Bus Rapid Transit routes. Metro will soon make offers to owners of property which Metro must take in order to build the proposed lines. The vote does not authorize condemnation in order to take land, but Metro officials expect that condemnation will eventually become necessary to acquire all the land that will be required. In a separate vote, the board authorized condemnation if necessary to acquire 9.7-acre tract at N. Main and Burnett just north of the Central Business District (493H). Metro plans to build an Intermodal Terminal on the site and surrounding land that will serve buses and trains. The land is occupied by a warehouse and is owned by **Cypress Real Estate Advisors**; according to Metro officials, Metro has made a final offer on the property and has not received a response.

According to the most recent report by **PKF Consulting**, Houston hotel occupancy increased in 2006. Occupancy increased 0.1 point over the year to 68.9%. The average daily rate increased 7.7% to \$101. Downtown Houston occupancy increased 3.8 points in 2006 to 66.5%. The statewide hotel market had a strong year as well; occupancy was up 1.5% over the year, with the average daily rate increasing 8.8%.

Houston Community College recently broke ground on two new facilities. The Learning Hub, on HCC's **Northeast** campus at 555 Community College Dr., will have computer laboratories, classrooms, and a 20,000-square-foot library. HCC is also constructing a science/technology building at 401 Northline on its new **Northline** campus, which will replace HCC's existing **Northline Center**, currently located at **Northline Mall**.

League City will become home to a new franchise in the **Continental Baseball League**. The **Bay Area Toros** will play a 12-week, 60-game schedule beginning in May against three Dallas-Fort Worth area teams, who are the other members of the newly formed league. Games will be played at **Clear Creek High School**.

According to the **2007 State New Economy Index**, produced by the **Ewing Marion Kauffman Foundation** and the **Information Technology and Innovation Foundation**, Texas ranks 14th among the states in terms of effectiveness at adapting to a new global economy. The index uses 26 indicators from a variety of sources in order to rank how the states have transitioned from the old model, focusing on how many companies a state could attract, to a new one focusing on creation and retention of high-wage jobs. Texas ranked 3rd in the globalization category and 6th in the number and value of initial public offerings. Massachusetts, New Jersey, and Maryland topped the list, with South Dakota, Arkansas and Alabama at the bottom.

Texas was recently ranked 2nd on the **2006 Governor's Cup** award list, released by **Site Selection** magazine. The list ranks cities and states based on their ability to secure new and expanded corporate facilities. Texas secured 363 projects, 2nd to Ohio's 431 projects. The list also ranked metropolitan areas for the first time, with the Houston-Baytown-Sugar Land area coming in 7th in the top population tier. The Dallas-Fort Worth-Arlington area ranked 4th in the top population tier.

A recent survey by **Intuit, Inc.** named Houston as one of the nation's stingiest cities, according to average charitable contributions per taxpaying resident. Houston ranked 20th on the list of the 25 stingiest cities, with an average of \$1,132 in annual charitable contributions per taxpayer. The survey named Salt Lake City as the most charitable, with an average of \$2,196 in annual charitable contributions, and San Antonio as the least charitable, as its taxpayers' average contribution is \$717 annually.

Houston was ranked 6th on the list of fattest cities nationwide, according to the 2007 health survey by **Men's Fitness** magazine. The magazine bases the ranking on data indicating how much residents exercise, how healthy they eat, how much they use gym memberships, how much junk food they eat, and how much time they spend sitting in traffic. Las Vegas was named the fattest city, while San Antonio was ranked 2nd and Dallas 7th.

The **Upper Kirby District**, the **Greater Houston Convention and Visitors Bureau**, and the **Houston Intown Chamber of Commerce** have joined to open the **Upper Kirby/Intown Visitors Center**, located at 3273-B Southwest Fwy. near **Lakewood Church**. The center will provide visitors with information on area attractions, hotels, restaurants, and transportation, as well as facts about surrounding neighborhoods. The center will also host neighborhood meetings and workshops.

Please direct any questions regarding content in the *Houston Real Estate Trends* to Kathryn Koepke at 713-686-9955 or kkoepe@poconnor.com



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